

— August 17, 2005 —



Financial Management

Defense Departmental Reporting
System – Audited Financial
Statements Report Map
(D-2005-102)

— Department of Defense —
Office of the Inspector General —

Constitution of
the United States

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Article I, Section 9

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Acronyms

DDRS-AFS	Defense Departmental Reporting System – Audited Financial Statements
DFAS	Defense Finance and Accounting Service
DoD IG	Department of Defense Inspector General
GLAC	General Ledger Account Code
USSGL	United States Government Standard General Ledger



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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August 17, 2005

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on Defense Departmental Reporting System - Audited Financial
Statements Report Map (Report No. D-2005-102)

We are providing this report for your information and use. We considered
management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD
Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are
required.

We appreciate the courtesies extended to the staff. Questions should be directed
to Mr. Carmelo G. Ventimiglia at (317) 510-3855 (DSN 699-3855) or Mr. Jack L.
Armstrong at (317) 510-3846 (DSN 699-3846). For the report distribution, see
Appendix B. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Patricia A. Marsh
for Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Department of Defense Office of Inspector General

Report No. D-2005-102

(Project No. D2005-D000FI-0086.000)

August 17, 2005

Defense Departmental Reporting System - Audited Financial Statements Report Map

Executive Summary

Who Should Read This Report and Why? DoD personnel who are responsible for preparing DoD financial statements and for maintaining the Report Map in the Defense Departmental Reporting System - Audited Financial Statements (DDRS-AFS) should read this report. The report identifies an internal control weakness regarding the DDRS-AFS Report Map's compliance with Department of Treasury guidance.

Background. Office of Management and Budget Bulletin No. 01-09, "Form and Content of Agency Financial Statements," September 25, 2001, provides guidance for preparing agency financial statements. Federal agencies must be able to map* U.S. Government Standard General Ledger information to the financial statements. The U.S. Government Standard General Ledger, released annually in the Department of Treasury Financial Manual, provides technical guidance to standardize Federal agency reporting. The U.S. Government Standard General Ledger is composed of five major sections including a chart of accounts, account descriptions, accounting transactions, account attributes, and report crosswalks. The Defense Finance and Accounting Service provides accounting support for the preparation and issue of DoD financial statements and reports. The DDRS-AFS application standardizes the DoD reporting process and produces the annual and quarterly financial reports based on general ledger account codes and standard attributes. The DDRS-AFS Report Map details the U.S. Government Standard General Ledger account codes and respective attributes that make up the reportable items on the financial statements. The FY 2004 DoD Agency-Wide Financial Statements reported total assets of \$1.2 trillion, total liabilities of \$1.7 trillion, net cost of operations of \$0.6 trillion, and budgetary resources of \$1.0 trillion.

Results. The DDRS-AFS Report Map used to map trial balance data into the FY 2004 DoD financial statements was different than the Department of Treasury guidance for 516 of 3,557 lines. As a result, the DDRS-AFS Report Map was not fully compliant with the U.S. Government Standard General Ledger. The financial information in DDRS-AFS was vulnerable to manipulation by changes to the Report Map, which could cause inaccurate financial statements. The Defense Finance and Accounting Service should require reconciliation of the Report Map with the Department of Treasury guidance and require that any changes to the DDRS-AFS Report Map or deviations from the Department of Treasury crosswalks be justified, documented, and approved with all supporting documentation maintained in a central location. (See the Finding section of the report for the detailed recommendation.)

* Assign trial balance data to the proper place on the financial statements.

Management Comments. The Director of Accounting Services at Defense Finance and Accounting Service concurred with the recommendation; therefore, no further comments are required. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

Financial Statement Guidance. Office of Management and Budget Bulletin No. 01-09, “Form and Content of Agency Financial Statements,” September 25, 2001, provides guidance for preparing agency financial statements. The bulletin defines the form and content for Federal agency financial statements. Federal agencies must be able to map¹ U.S. Government Standard General Ledger (USSGL) information to the financial statements.

The USSGL, released annually in the Department of Treasury Financial Manual, provides technical guidance to standardize Federal agency financial reporting. The USSGL is composed of five major sections.

- a chart of accounts
- account descriptions
- accounting transactions
- account attributes
- report crosswalks (Treasury Crosswalks)

The chart of accounts provides a basic 4-digit structure for the USSGL general ledger account codes (GLACs). Attributes identify additional information needed to meet a specific reporting requirement. The Treasury Crosswalks map GLACs and attributes to financial reports in accordance with current reporting guidance from the Office of Management and Budget and the Federal Accounting Standards Advisory Board. Each combination of GLAC and attribute is a line in the Treasury Crosswalks, and the Treasury Crosswalks map each line to a reportable element on the financial statements.

DoD Financial Management Regulation. The DoD Financial Management Regulation 7000.14-R, volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” March 2002, requires that the Director of the Defense Finance and Accounting Service (DFAS) establish procedures to ensure that the process for preparing financial reports is consistent, timely, and auditable, and includes controls for accurate reporting. Chapter 2 also requires that DFAS maintain a complete and documented audit trail to support the reports it prepares.

Defense Finance and Accounting Service. DFAS is responsible for providing accounting support for the preparation and issuance of DoD financial reports. DoD Components’ financial statements are compiled at various DFAS accounting sites. DFAS Arlington collects and reviews each DoD Component’s financial

¹ Assign trial balance data to the proper place on the financial statements.

statements for accuracy, completeness, and consistency.² After review, DFAS Arlington approves the DoD Component's financial statements for consolidation into the DoD Agency-Wide financial statements.

Defense Departmental Reporting System-Audited Financial Statements. The DDRS-AFS is a DoD application first used to prepare the FY 2000 DoD financial statements, Required Supplementary Information, and trend analysis reports. The DDRS-AFS application:

- facilitates and standardizes the reporting process using the USSGL, and
- provides for a more efficient reporting process by compiling financial information into one DoD Agency-Wide system.

The DDRS-AFS application produces the annual and quarterly financial reports based on GLACs and standard attributes. The DDRS-AFS Report Map (the Report Map) details the GLACs and the respective attributes that make up the reportable elements on the financial statements. The DDRS-AFS application is revised annually to accommodate changes in financial reporting requirements and changes to the Treasury Crosswalks. The FY 2004 Report Map contained 3,557 lines to populate the Balance Sheet; the Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing, and Custodial Activity; the Reclassified Balance Sheet; and the Reclassified Statements of Net Cost and Changes in Net Position.

The Report Map contains six attributes.

- The first attribute indicates whether the GLAC is entity (E) or nonentity (O).
- The second attribute specifies whether the transaction partner is either Federal (F) or Non-Federal (N).
- The third attribute determines whether the GLAC amount is covered by budgetary resources. This attribute is classified as funded (F), covered by unobligated budgetary resources (C), or not covered by budgetary resources (N).
- The fourth attribute indicates whether revenue being reported is exchange revenue (X) or nonexchange revenue (T).
- The fifth attribute indicates which line on the Statement of Financing a GLAC is to appear. For example, an attribute of Fin9 associates, or matches, the GLAC with item 9 (Other Resources) on the Statement of Financing.
- The sixth attribute contains any additional information needed.

² Responsibility for preparing the DoD Agency-Wide financial statements has been moved to DFAS Indianapolis.

A specific GLAC and attribute combination can appear on more than one line of the Report Map. For example, the Report Map has five lines for GLAC and attribute combination 7111 N X Fin26,³ for each of five financial statements (Balance Sheet, Statement of Net Cost, Statement of Financing, Reclassified Balance Sheet, and Reclassified Statement of Net Cost). The GLAC and attribute combinations in the Report Map should produce the same financial reporting as the Treasury Crosswalks.

DoD Agency-Wide Financial Statements. The Principal FY 2004 DoD Agency-Wide Financial Statements consisted of the Consolidated Balance Sheet, Consolidated Statements of Net Cost and Changes in Net Position, Combined Statements of Budgetary Resources and Financing, Statement of Custodial Activity, and supporting notes. The FY 2004 DoD Agency-Wide Financial Statements reported total assets of \$1.2 trillion, total liabilities of \$1.7 trillion, net cost of operations of \$0.6 trillion, and budgetary resources of \$1.0 trillion. In addition, DFAS used DDRS-AFS to produce financial statements for the other DoD reporting entities and reclassified statements for the Department of the Treasury.

Objective

Our audit objective was to determine whether the DDRS-AFS Report Map used to prepare the DoD financial statements complied with Office of Management and Budget and Department of Treasury guidance. See Appendix A for a discussion of the scope and methodology.

³ Gains on Disposition of Investments (GLAC 7111), Non-Federal (N), Exchange Revenue (X), Revaluation of Assets or Liabilities (Fin26-item 26 of the Statement of Financing).

Report Map Compliance

The Report Map used to map trial balance data into the FY 2004 DoD financial statements differed from the Treasury Crosswalks for 516 (15 percent) of 3,557 lines. DFAS did not have adequate controls to ensure that the Report Map and Treasury Crosswalks were reconciled and that the differences were properly documented, justified, and corrected. In addition, changes to the Report Map were not adequately documented and justified. As a result, the Report Map was not fully compliant with the USSGL and the financial information in DDRS-AFS was vulnerable to manipulation by changes to the Report Map, which could cause inaccurate financial statements.

Crosswalk Differences

The Report Map was not fully compliant with the USSGL because it differed from the Treasury Crosswalks for 516 (15 percent) of 3,557 lines. The Federal Financial Management Improvement Act of 1996 requires that Federal financial accounting be compliant with the USSGL. The following table categorizes the 516 differences.

Table. Line Differences	
<u>Description</u>	<u>Number</u>
Incorrect or missing attributes	155
Lines not in the Report Map	145
Inconsistent use of GLAC and attribute combinations	112
Different line population methods	56
Lines not in the Treasury Crosswalks	<u>48</u>
Total	516

Incorrect or Missing Attributes. The DDRS-AFS Report Map had 155 lines that did not have the correct combination of GLACs and attributes. For example, the Treasury Crosswalks for the Statement of Net Cost included both Federal and Non-Federal attributes for GLAC 7280 (Unrealized Losses); however, the Report Map only included the Non-Federal attribute.

Lines Not in the Report Map. The Report Map did not contain the same GLAC and attribute combination as the Treasury Crosswalks for 145 lines. For example, the Treasury Crosswalk for the Statement of Net Cost included GLAC and attribute combination 7500 F X,⁴ but the Report Map did not include GLAC 7500.

Inconsistent Use of GLAC and Attribute Combinations. The Report Map did not consistently use GLAC and attribute combinations in all applicable financial statements for 112 lines. For example, the Report Map included GLAC and attribute combination 5750 F T Fin14 “Distributed Offsetting Receipt”⁵ in the Balance Sheet and Statement of Financing; however, the Report Map did not include this combination for the Statement of Changes in Net Position, Reclassified Balance Sheet, and Reclassified Statement of Changes in Net Position.

Different Line Population Methods. For 56 lines, the Report Map did not populate financial statement lines in the same manner as the Treasury Crosswalks. For example, the Treasury Crosswalks used a combination of 25 GLACs to populate “Distributed Offsetting Receipts” on the Statement of Budgetary Resources, while the Report Map used only one memorandum account. When the Report Map uses a unique method to populate a financial statement line, DFAS should thoroughly explain and justify its methodology.

Lines Not in the Treasury Crosswalks. The Report Map contained 48 GLAC and attribute combinations that were not contained in the Treasury Crosswalks. For example, the Report Map included GLAC and attribute combination 7112 F T No BI⁶ on “Other Taxes and Receipts” of the Reclassified Statement of Changes in Net Position, while the Treasury Crosswalk did not contain GLAC 7112.

Documenting, Justifying, and Correcting Procedures

DFAS did not have adequate controls to ensure that the Report Map complied with Treasury and DoD Financial Management Regulation requirements. The DoD Financial Management Regulation requires that DFAS establish procedures to ensure that the process for preparing financial reports is consistent, timely, auditable, and includes controls for accurate reporting. Although DFAS established an operating procedure, titled “Defense Departmental Reporting

⁴ Distribution of Income-Dividend (GLAC 7500), Federal (F), Exchange Revenue (X).

⁵ Expenditure Financing Sources-Transfers-In (GLAC 5750), Federal (F), Nonexchange Revenue (T), Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations (Fin14-item 14 on the Statement of Financing), Distributed Offsetting Receipt.

⁶ Gains on Disposition of Borrowings (GLAC 7112), Federal (F), Nonexchange Revenue (T), No Budgetary Impact (No BI).

System (DDRS) Mapping Changes Procedures,”⁷ it did not adequately address internal controls over the Report Map. Specifically, the DFAS operating procedure did not require that:

- Report Map changes be fully documented, justified, and made only after supervisory review and approval; and
- the Report Map and Treasury Crosswalks be reconciled so that differences were identified, invalid differences (errors) were corrected, and valid differences were fully documented and justified.

Report Map Changes. DFAS personnel made 1,381 Report Map changes from August 20 through October 27, 2004, without documenting the justification and the supervisory reviews and approvals for them. An internal DDRS-AFS report identified the changes made to the Report Map; however, DFAS did not provide adequate support for the changes. DFAS personnel stated that a supervisor normally received a copy of the requested changes; however, supervisory reviews and approvals were not documented. The operating procedure did not require documentation, justification, or supervisory review and approvals for Report Map changes. As a result, there was no evidence that the Report Map changes were necessary and correct. The lack of appropriate internal controls and the significant number of Report Map changes increase the risk that errors or misstatements could occur in the financial statements.

Report Map Reconciliation. DFAS had not documented the 516 line differences because a complete reconciliation of the Report Map and the Treasury Crosswalks had not been performed. On December 21, 2004, we requested that DFAS provide supporting documentation to justify the 516 differences. DFAS provided partial explanations and supporting documentation for 391 (76 percent) of the 516 differences on March 4, 2005. DFAS agreed that the remaining 125 (24 percent) differences were errors and that the errors would be corrected sometime in FY 2005. If the operating procedure had required an annual reconciliation of the Report Map with the Treasury Crosswalks, and the reconciliation had been performed, these errors could have been identified and corrected.

DFAS provided adequate explanations and supporting documentation for 204 of the 391 line differences. However, DFAS had to reconstruct explanations and supporting documentation because the evidence either had not been prepared or it had not been maintained in a readily accessible location. DFAS provided written explanations for the other 187 differences, but did not have sufficient documentation to support the explanations. The operating procedure discusses the process for making changes to the Report Map; however, it does not provide guidance for detecting differences and correcting errors between the Report Map and Treasury Crosswalks. The operating procedure should require that valid differences between the Report Map and the Treasury Crosswalks be justified,

⁷ The operating procedure was only one page, was not dated, and did not indicate that it had been formally approved.

reviewed, approved by a supervisor, and fully documented. It should also require that the documentation be maintained in a readily accessible location so the support and audit trail do not have to be reconstructed.

Financial Statement Risk

The financial information in DDRS-AFS was vulnerable to manipulation because of the lack of internal controls over the Report Map. The numerous changes to the Report Map and the differences between the Report Map and the Treasury Crosswalks increase the likelihood of misstatements in the DoD financial statements. Three of the differences created a total misstatement of \$201.9 million (absolute value) on two items⁸ on the Statement of Financing and one item on the Reclassified Balance Sheet.⁹ Fifty-seven of the 516 differences related to the Statement of Custodial Activity. DFAS personnel stated that the Statement of Custodial Activity was mapped to support the material amounts related to custodial activity for the Foreign Military Sales and Iraqi programs, but agreed that the Report Map did not comply with the Treasury Crosswalk for the Statement of Custodial Activity. DFAS is currently working on a solution to this problem.

Recommendation and Management Comments

We recommend that the Director of the Defense Finance and Accounting Service update the operating procedure, titled “Defense Departmental Reporting System (DDRS) Mapping Changes Procedures.” At a minimum, the operating procedure should require that the Defense Finance and Accounting Service:

- 1. Document, justify, and have supervisors approve changes made to the Report Map.**
- 2. Perform an annual reconciliation of the Report Map with the Treasury Crosswalks and:**
 - a. Correct invalid Report Map differences.**
 - b. Explain and support any valid Report Map differences.**
- 3. Maintain supporting documentation for all justifiable differences and Report Map changes in a central location.**

⁸ Resources That Finance the Acquisition of Assets, and Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations.

⁹ Cumulative Results of Operations.

Management Comments. The Director of Accounting Services at DFAS concurred with all parts of the Recommendation. The Director of Accounting Services stated that DFAS will perform reconciliations between the Report Map and Treasury Crosswalks Report Map quarterly, instead of annually. We consider the DFAS comments responsive.

Appendix A. Scope and Methodology

We reviewed the DDRS-AFS Report Map used to prepare the FY 2004 DoD financial statements to determine whether it complied with guidance from the Office of Management and Budget and the Department of Treasury. We compared the Report Map to the Treasury Crosswalks published in the Department of Treasury Financial Manual to identify any differences between them. We discussed the Report Map differences with DFAS personnel to determine the reasons for the differences. We examined the procedures and processes used by DFAS Arlington personnel to control changes to the Report Map and for ensuring the accuracy of the Report Map. In addition, we used the DDRS-AFS trial balance data to assess the potential financial statement effect of any Report Map differences.

We followed up on Department of Defense Inspector General (DoD IG) Report No. D-2001-165, "Defense Departmental Reporting System - Audited Financial Statements," August 3, 2001. We previously reported that DFAS recorded adjustments to correct deficiencies in the Report Map. We reviewed the FY 2004 DDRS-AFS Journal Voucher Log to determine whether DFAS continued to create this type of adjustment. We found that there were no DDRS-AFS journal voucher adjustments prepared to correct the Report Map deficiencies.

We performed this audit from November 2004 through May 2005 in accordance with generally accepted government auditing standards.

We did not review the management control program during this audit. The management control program was reviewed as part of the audit of the FY 2004 Army General Fund Financial Statements. Therefore, a review of the management control program was not an announced audit objective.

Use of Computer-Processed Data. We did not rely on computer-processed data to determine whether the Report Map complied with Office of Management and Budget and Department of Treasury guidance. The Report Map is a table that converts the DDRS-AFS trial balance data into the proper format for presenting the DoD financial statements. The Report Map information was compared to Department of Treasury guidance to determine the Report Map accuracy. The details of the comparison are discussed in the finding. We used the DDRS-AFS trial balance data to assess the potential financial statement effect of any Report Map differences; however, we did not perform any detailed reliability testing of the trial balance data.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

Prior Coverage

During the last 5 years, the DoD IG has issued one report, which discussed the financial statement crosswalks. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

DoD IG

DoD IG Report No. D-2001-165, “Defense Departmental Reporting System - Audited Financial Statements,” August 3, 2001

Appendix B. Report Distribution

Office of the Secretary of Defense

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House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

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House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform

House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform

House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
1240 EAST NINTH STREET
CLEVELAND OHIO 44199

JUL 15 2005

DFAS-A/CL

MEMORANDUM FOR TECHNICAL DIRECTOR, AUDIT FOLLOWUP & GAO AFFAIRS,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Management Comments to DoDIG Draft Report, DoDIG Draft Report "Defense
Departmental Reporting System-Audited Financial Statements" (D2005FI-0086)

Our response to the subject draft report is attached. The point of contact is
Mr. Jerry Shea, (703) 601-3021 or DSN 329-3021.



L.J. Krushinski
Director, Accounting Services

Attachment:
As stated

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Management Comments to DoDIG Draft Report, "Defense Departmental Reporting System-Audited Financial Statements" (D2005FI-0086)

Management Comments on Finding, "Report Map Compliance": The finding states that the Report Map used to map trial balance data into the FY 2004 DoD financial statements differed from the Treasury crosswalks for 516 (15 percent) of 3,557 lines. As a result, the Report Map was not fully compliant with the USSGL and the financial information in DDRS-AFS was vulnerable to manipulation by changes to the Report Map, which could cause inaccurate financial statements.

The preliminary audit analysis identified 516 differences between the Report Map and Treasury crosswalks. The analysis of the crosswalk differences presented in the audit report is based upon the 516 differences identified during the preliminary audit analysis. When DFAS personnel were provided a list of the auditor-identified differences and an opportunity for explanation, adequate written explanations and supporting documentation were provided for 204 differences (39.5 percent) of the 516 differences. Written explanations for an additional 187 differences (36.2 percent) were provided without sufficient documentation to support the explanations. The remaining 125 differences (24.2 percent) reflected errors requiring correction.

Recommendation: We recommend that the Director of the Defense Finance and Accounting Service update the operating procedure, titled "Defense Departmental Reporting System (DDRS) Mapping Changes Procedures." At a minimum, the operating procedure should require that the Defense Finance and Accounting Service:

1. Document, justify, and have supervisors approve changes made to the Report Map.

DFAS Response: Concur with comment. The Defense Finance and Accounting Service transferred preparation of the DoD Agency-wide financial statements, effective for the 3rd quarter FY 2005, from the Director, Accounting Services, Arlington, to the Director, Accounting Services, Army. The Director, Accounting Services, Army, will revise the procedure to require the Agency-Wide Financial Statements Directorate to prepare supporting documentation and written justification for all proposed changes to the Report Map, and the Director, Agency-Wide Financial Statements Directorate, to review and approve all changes to the Report Map and submit documentation on approved changes to the DDRS Project Management Office. The DDRS Project Management Office will make changes to the Report Map only after receiving documentation on Report Map changes approved by the Director, Agency-Wide Financial Statements Directorate.

Previous changes to DDRS were due to changes made to Treasury crosswalks. Changes could only be made by the DDRS Project Management Office when requested in writing by the Audited Financial Statement Division staff. Each change to DDRS report mapping was documented by an e-mail and/or change template forwarded to the Project Management Office. Further, each change was routed through the Director, Audited Financial Statements Division, who exercised approval/disapproval authority on an exception basis. No changes were made as a result of verbal requests.

Estimated Completion Date: August 15, 2005

2. Perform an annual reconciliation of the Report Map with Treasury Crosswalks and
(a) Correct invalid Report Map differences. (b) Explain and support any valid Report Map
differences.

DFAS Response: Concur. The Director, Accounting Services, Army, will revise the procedure
to require the Agency-Wide Financial Statements Directorate to conduct a quarterly
reconciliation between the Report Map and Treasury Crosswalks to identify differences, prepare
standardized documentation of the reconciliation and differences, coordinate with the DRS
Project Management Office to correct invalid Report Map differences, and prepare written
explanations and supporting documentation for valid Report Map differences.

Estimated Completion Date: September 15, 2005

3. Maintain supporting documentation for all justifiable differences and Report Map
changes in a central location.

DFAS Response: Concur. The Director, Accounting Services, Army, will revise the procedure
to require the Agency-Wide Financial Statements Directorate to retain documentation of the
quarterly reconciliation and differences, written explanations and supporting documentation for
valid Report Map differences, and approved Report Map changes, including supporting
documentation. The procedure will include a retention period of three fiscal years.

Estimated Completion Date: August 15, 2005

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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